RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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August 22, 1984 **LETTER 894**

Aug. 10, DJIA 1218.20; PTI 1566; A-D Ratio –20.76
Aug. 17, DJIA 1211.90; PTI 1573; A-D Ratio –20.89

THE MARKET: I learned my market basics from the writings of the great Dow theorist, Robert Rhea. So I guess a good way to start this Letter would be by quoting something Rhea wrote on June 25, 1938: "Nothing in the averages ever surprises an experienced student of the price movement, and only a novice dogmatizes where the stock market is concerned." A second quote from Rhea might be in order here: "Fast rallies and rapidly expanding volume cannot continue forever. Great upward velocity tends to inflame speculative fever, and ultimately breeds a reaction, the severity of which is always somewhat in proportion to the type of advance. When a reaction will develop we cannot tell. The movement may carry to unexpected levels before a crash" (written on June 25, 1938).

All right, now let me mention another market pioneer, the great technician, John Magee. John used to lock himself away in his room (deep in the heart of Massachusetts) and mull over his stock charts. John not only didn't care what was going on in the outside world, he positively avoided it. On the wall of his office hung a sign which stated, "Don't bother me with facts, my mind's made up." In other words, John made up his mind about the market on the basis of market action, and he didn't want his opinions cluttered and confused by what was being bandied about in the newspaper headlines.

Of course, this is just another way of saying that all the economic facts, all the news, all the opinions, are sifted down each day into "the bloodless verdict of the marketplace." And that, in a nutshell, is the credo of the true market technician.

Today, there are very few pure technicians. After all, how many stock market advisories do you read that don't mention interest rates, the Mideast, inflation, corporate earnings, politics or the price of oil? Probably none, so just to be orthodox, why don't we try to look at Wall Street strictly on the basis of market action? Let's see what the market might be saying (minus all outside influences and extraneous facts).

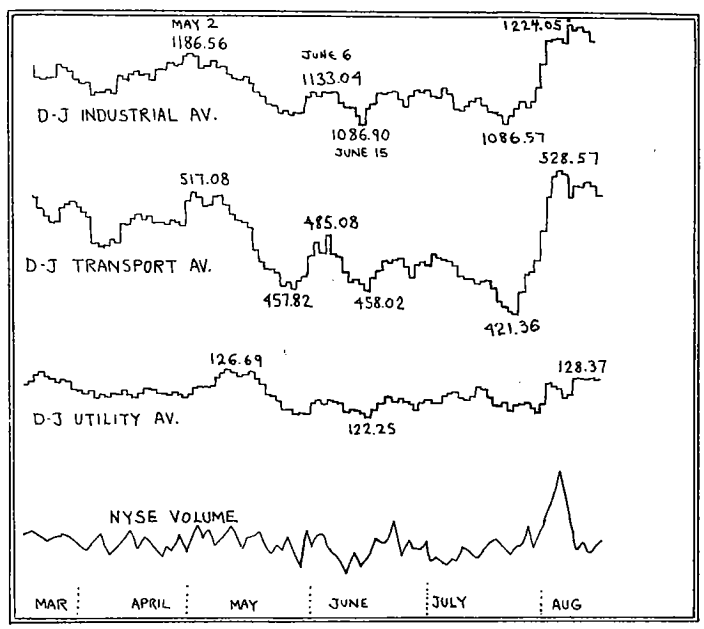
The stock market "took off" on August 1, 2, 3, in one of the most powerful upward sweeps in Wall Street history. Volume for the three days was an unprecedented half billion shares and the Dow gained 86 points. Breadth was massive with over 1300 advancing issues on all three days. On August 1 upside volume was 10 to 1 over downside volume and on August 2 upside volume was 12 to 1 over downside volume.

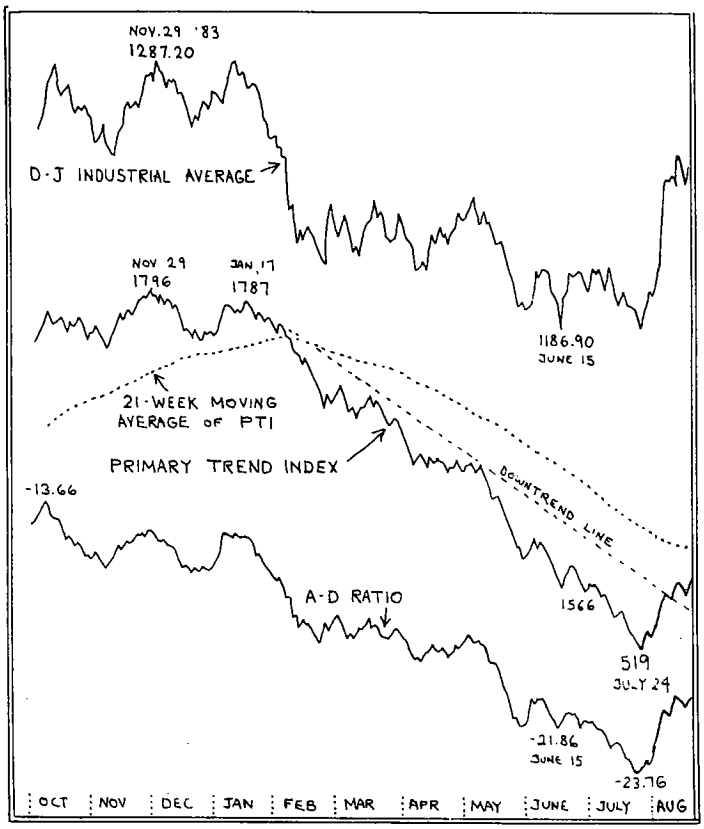
Since 1962 (research courtesy of Ned Davis Research) there have been eight instances where upside volume has been 9 to 1 or better above downside volume twice within a short period of time (within a period of 3 months). In each of these cases, the market rose strongly following these upside explosions. Now mull over this: August 1, 2 and 3 was the first time in history that the NYSE produced *three* 9 to 1 upside to downside volume days in a row. It's never happened before! So whatever else you might say about the early-August action, you have to say that it started with unprecedented upside thrust.

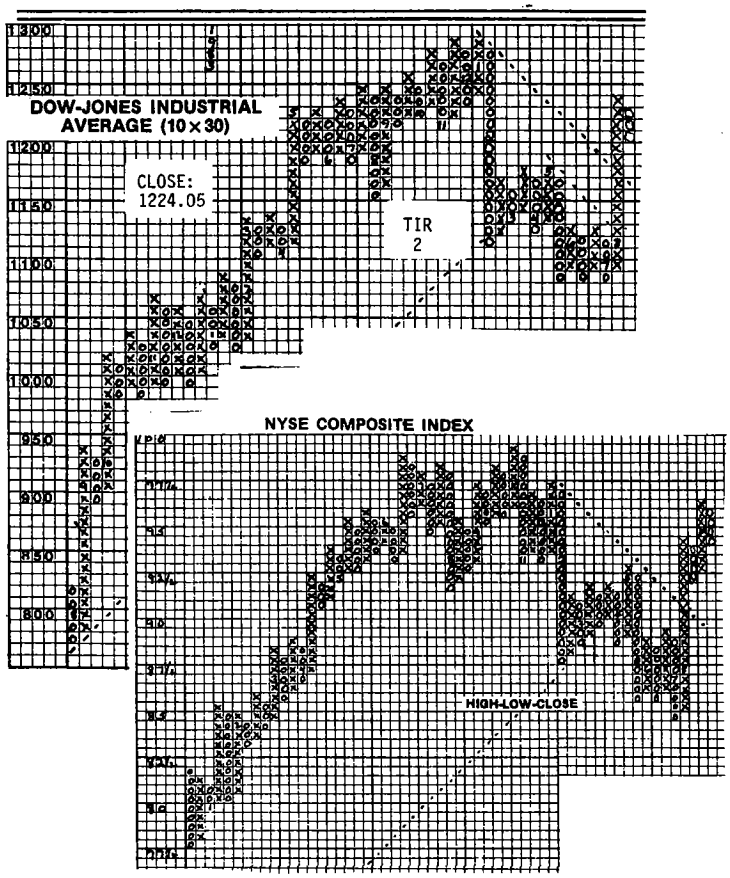
Veteran subscribers probably remember that I have often stated that the ***initial thrust*** of a move often gives hints as to the ultimate extent of the entire movement. If this is true, one has to respect that tremendous initial action which was seen on August 1, 2 and 3.

All during the 1984 decline I drew attention to Dow's 50% Principle in relation to the critical halfway level of the 1982-83 advance. The Dow started up in August 1982 from a low of 776.92 and rose to a November 1983 high of 1287.30. The halfway level of that 510 point rise is 1032 on the Dow. I wrote that the market's ability or inability to hold above the 1032 mark would tell us whether we were facing a limited bear market or a major bear market disaster. If the market could bottom out and re-consolidate above the 1032 mark (see Letter 881), this would be a long-term bullish indication. It would imply that in due time the Dow would attack the highs again.

Let me quote from Letter 881: "If, following whatever declining action lies ahead, the Dow can hold above the 1032 level, we will have a very hopeful indication under Dow's 50% Principle. In fact, the LONGER the Dow holds above 1032 the more hopeful the situation. Ideally, we could see the market start to base with the Dow still this side of 1032. Then, if the Averages break out of that base and head higher, we will have the most







optimistic picture possible under Dow's 50% Principle" (Feb. 23, 1984).

Consider this: the general market as measured by the advance-decline ratio turned down on June 13, 1983–14 months ago. The Dow itself turned down from its record high on November 29, 1983–9 months ago. Despite all the bear market action since mid-1983 the Dow never got lower than 1086.57 (July 24, 1984). But that low was 54 points ABOVE THE HALFWAY LEVEL. Thus, from the standpoint of Dow's 50% Principle the market remained constructive in that the Dow held stubbornly above the halfway level of the preceding major advance.

Next, turn to the page 1 chart of the D-J Averages. Note that both Averages (Industrials and Transports) have bettered their previous important peaks (peaks recorded on May 2, 1984). In the absence of an orthodox bull signal, when both Averages rally straight up from a low and better the preceding secondary peaks, it can be inferred that the major trend is bullish (this concept was formulated by Robert Rhea).

Now let's turn to the point & figure chart. The first chart is a 10 x 30 chart of the D-J Industrials (chart courtesy of Chartcraft, Larchmont, NY). This means that each box on the chart equals 10 points on the Dow, and only rallies (X's) or declines (O's) of 30 points or more are depicted.

Note that on its recent rise the Dow pushed above the previous peaks at the 1180 box, thus rendering a bull signal on the P & F chart. Also note that the Dow pushed through its major declining trendline when it touched 1190. There is room for consolidation or decline now, but the fact is that this chart has turned strongly bullish.

The NYSE Composite Index includes ALL the common stocks on the NYSE, but despite this much broader index the picture is the same as that for the Dow. Here we see the NYSE Index reversing its declining trendline when it touched the 91.5 box. When it touched 93½, the NYSE Index bettered its important preceding peak at 93.

Thus, on a cold reading of both of these P & F charts the picture is bullish. The market may back off, it may consolidate, it may correct severely, but I feel it is wrong to argue with the obvious here. The obvious is that the picture has changed. The market has turned bullish, and it would seem that it has turned bullish in a longer-term sense.

All right, now let's turn to the daily chart on page 2. Here we see that my Primary Trend Index (PTI) has reversed the eight-month trendline, a trendline that connects the January, March and May peaks. From a low of 1519 recorded on July 24, the PTI (by August 14) had climbed to 1569. This is the first important rise in the PTI to appear in 1984 so far. The PTI has not yet pushed above its 21-week moving average (which now stands at approximately 1600), but we do have a downside point of reference. The longer the PTI holds above its July 24 low of 1519, the more hopeful for the market picture. And if the PTI can continue strong and push above its 21-week MA, I would consider the main trend of the market as decisively up.

Actually, it is in a situation such as this that I find the PTI most useful. The PTI will now measure whether the market is building strength or losing strength. If the market is building strength the 21-week MA will soon be bettered. If the market is losing strength (following the massive rally) the PTI will sink down and ultimately break to new lows. The PTI has been a huge help to us during 1984 so far. It should be just as much help from here on as the market moves into the Fall of 1984.

At the bottom of the chart we see that A-D ratio has reversed its downward trend. It has moved up roughly three points from

its July 24 low. Note how much more insistent the decline in the PTI has been during 1984 compared to the erratic descent of the A-D ratio. If the tide is now up, the PTI should be just as insistent in its climb to the upside.

Question: Russell, is it possible that the entire decline since 1983 was simply a severe reaction within a continuing primary bull market?

Answer: This is a tough question, and there are good arguments on each side of the ledger. The decline for most NYSE stocks lasted 14 months, which is a long time for "just a correction." Many secondary and over-the-counter stocks lost 50% and even 75% of their value. People who owned such shares can hardly feel they were living through a mere correction.

On the other hand, none of the major averages gave back as much as half of their 1982-84 gains. From that standpoint, one would have to say that we have been in either a mild bear market (by historical standards) or a rather severe and extended bull market correction. An argument for the "bull market correction" is the fact that the advance from the July 24, 1984 low has been so explosive and carried so far. The market (in early August) acted as if it had been "held back" by corrective forces and was making up for lost time.

Question: How do you explain the violence of this market rise? Why so fast and so far?

Answer: I'll repeat the old Wall Street adage, "The market will do whatever it has to—to drive the largest number of people up the wall." At the July lows most investors were discouraged, the funds were loaded with cash and under-positioned in the market, and the public was disinterested or disheartened. Within a few trading days the market was out of sight on the upside, and the odd-lotters (a proxy for the public) went on a selling spree. The market had done what almost nobody was ready for. Even the few bulls who were "fighting the downtrend" were hardly expecting anything like the early- August action. To that extent, the market made a fool of everyone.

Question: Have we ever had a rise like this before in the Averages?

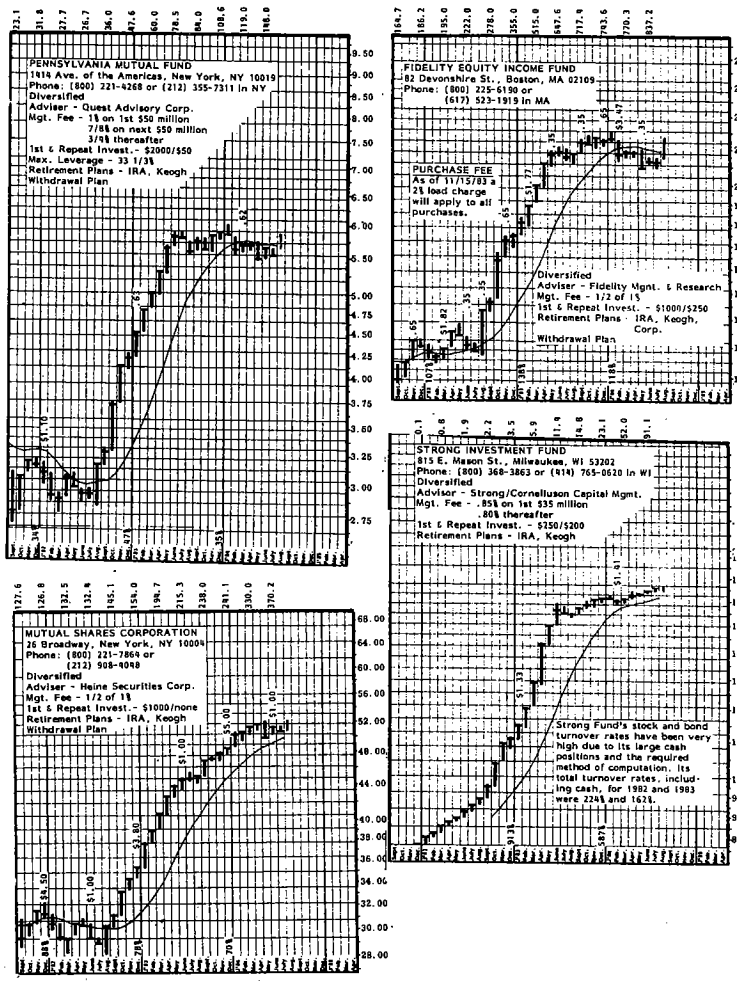
Answer: Nothing like this in terms of pointage or volume, but in terms of percentages the August rally is hardly a record-breaker. For instance, from early July 1932 to mid-September the Dow almost doubled in terms of percentages, rising from 41.22 to 79.93. Over the same period the Transports (Rails) tripled. Again, in 13 trading days beginning March 31, 1938 the Dow rose from 98.95 to an April 15 peak of 121.00, a rise of 22%. Both explosions, I might add, marked the start of new bull markets. Whether the August 1984 explosion carries the same message remains to be seen.

Question: On your six gauges of the primary trend, are there any changes here?

Answer: Yes, there are some changes. (1) My PTI has been discussed in earlier portions of this Letter, and here the status is bullish on a secondary basis, and potentially bullish long-term (if the PTI betters its 21-week moving average). (2) The Trendex Long-Term Probability for the NYSE Index is still bearish, but its downside momentum is undoubtedly flattening out. (3) Lowry's Buying Power/Selling Pressure studies are bullish near-term, but there are longer problems–for instance, the market is now overbought, and the selling pressure line is still dominant. (4) The Dow Theory, in my opinion, is in a bullish mode, as explained earlier. (5) I have to assume that the Bank Credit Analyst's studies are still bearish, but I must wait for the next issue to be received in early September. (6) Ned Davis' "Big Mo" indicator is still mildly bearish but improving.

Question: How did the no-load funds do during the 1983-84 period?

Answer: Most were down, and some were down as much as 50%. But there were a number of great performances by funds that lost very little during 1983-84 and some that actually gained. Outstanding performances were seen (and this is not a whole list) by Fidelity Equity Income, Mutual Shares Corp., Pennsylvania Mutual Fund, Strong Investment Fund. I am including the charts of these funds here (charts courtesy of Growth Fund Research, Box 6600, Rapid City, SD 57709).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7/8% on next $50 million
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Max. Leverage - 33 1/3%
Retirement Plans - IRA, Keogh
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Withdrawal Plan
STRONG INVESTMENT FUND
815 E. Mason St., Milwaukee, WI 53202
Phone: (800) 368-3863 or (414) 765-0620 in WI
Diversified
Advisor - Strong/Cornelluson Capital Mgmt.
Mgt. Fee - .85% on 1st $35 million
.80% thereafter
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Retirement Plans - IRA, Keogh
Strong Fund's stock and bond turnover rates have been very high due to its large cash positions and the required method of computation. Its total turnover rates, including cash, for 1982 and 1983 were 224% and 162%.
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Diversified
Adviser - Heine Securities Corp.
Mgt. Fee - 1/2 of 1%
1st & Repeat Invest.- $1000/none
Retirement Plans - IRA, Keogh
Withdrawal Plan

INEVITABLE: Here's a question I've often asked myself about the market, and it's "Is there anything in the market that is inevitable?" As far as the daily action of the market my answer is "No." In other words, if the Industrials and Transports both break through preceding low points, is it inevitable that the market will go lower? The answer is "No, usually the market will go lower, but there are instances where it will not." Another example, if the market roars up on high volume, is it inevitable that the market will soon churn and halt its progress?" Answer: "No, usually very high volume will bring at least a pause and often a reaction, but it's never a sure thing."

Now there are three phenomena in the market that I believe are inevitable. First, every movement, whether minor, secondary or primary, will be subject to a correction. The corrections may come quickly or they may take time, but they WILL COME.

Second, the broad swings in the market will tend toward emotional extremes. In other words, I believe it's inevitable that investors will become too pessimistic about stocks (leading to a bear market bottom) and then they will become too enthusiastic about stocks (leading to a bull market top). I guess this is another way of saying that stocks (in due time) will reflect the extremes of human emotions. This is inevitable, and it is the way fortunes are made and lost in the market.

Third, I believe that it is inevitable that stocks tend to move towards value. In other words (and Benjamin Graham based his great studies on this) stocks (in due time) tend to move toward true value. When stocks get too far above true value they tend to decline. When they get too far below true value they tend to advance. The great investors in history were the ones that were great judges of values, buying stocks when they were overvalued and selling them when they undervalued.

In today's market we have a most interesting and difficult situation. Based on historical value, for instance, right now the yield on the Dow is 5.08% while the price/earnings ratio for the Dow is 12.8, both modest figures. The book value for the Dow is 975, and the Dow is therefore selling for 1.25 times book value, which is historically near under-valuation. Another way of gauging stock values is the ratio of the S & P 500 Index to adjusted corporate profits. This ratio is now down to its lowest level since 1949, so on that basis stocks are cheap, very cheap.

BUT, here comes the problem. When we talk about stock values we always have to ask, "Values compared with what?" and the answer is, compared with bond yields. And that's the rub. Currently bonds are great bargains (on a return basis) compared with stocks. So the great dilemma faces today's investors. On a value basis, stocks are reasonably priced and even on the cheap side. But compared with bonds, stocks are sky high.

I feel that this dilemma adds to the volatility of today's market. This is particularly true because bonds today are extremely volatile, and any important decline in bonds (such as the June-July 1984 decline) affects the ratio of stock yields to bond yields acutely. Put it this way–at the present time the stock/bond yield relationship is negative for stocks. But any drop in bond yields exerts a very bullish force on stocks.

In my opinion, the fundamentals of the stock and bond markets (yield comparisons) override the technicals. It's going to be a tough time for trend followers over the next few years. It will be a better time for those who have a thorough understanding of values.

REAGAN: For the life of me I cannot figure out the stance of the Reagan Administration on (1) the deficits and (2) the world population explosion. The Reagan Administration now states that the key to population control is economics. In other words, raise the world standard of living and the population explosion will simmer down, because don't the advanced nations like the US have a lower birth rate? I place this approach in the idiot class.

The fact is that the populations of Africa and Central and South America and Asia are booming, and the world population is rising by 220,000 souls per day! Most of the world knows little or nothing about birth control, nor do they care about it. The fact is that the world population explosion is a HUGE and GROWING problem. On this entire question, Reagan is "out to lunch."

As for the deficits, I simply don't understand why Reagan and Regan keep promising no tax increases in 1985 (except, of course, for political reasons). But the fact is that tax increases will be needed and they will come. Reagan might as well tell the people the truth. Put it this way–if Reagan could bring the crazy deficits *down* to a whopping $150 billion per year he would be boasting about it. That's how sick the situation has become!

NOTES & QUOTES: The latest issue of M magazine carries the story of two Texans, and it runs like this. First Texan: "Ah got 50,000 acres of the best grazin' land in Texas." Second Texan: "Well, ah've got 50 acres of real good land." First Texan: "Wah, I park mah cars on more land than that. Where is yo' iddy biddy 50 acres located?" Second Texan: "In downtown Houston."

* *

Trouble: A recent IRS ruling (84-113, 7/30/84) is going to make it tough to deduct investment seminar expenses on your income tax. The case involves a person who had gone to a seminar to learn about managing his portfolio. He attended two 2-hour sessions during the seven-day outing. The IRS allowed him NO deductions.

* *

Only two banking companies in the US now carry an AAA rating, they are J.P. Morgan and Texas Commerce Bankshares Inc. It never used to be this way.

* *

It has been said that "Treason is a matter of timing." I believe that. Yesterday's crime may bring a wrist-slap today. To use a minor example, a girl in today's Bikini would have been arrested for "indecent exposure" 20 years ago (or less). And a Senator McCarthy would undoubtedly be tried for libel or slander today.

How's this for hypocrisy? I am indebted to Howard Ruff for bringing this to my attention. Congressman George Hansen was recently convicted and reprimanded. One of the counts on which he received sentence was refusing to list his wife's

INVESTMENT POSITION: I could be wrong, but I don't feel any great urge to rush into the stock market (it could be because I like the return on bills and bonds so much). At any rate, I do think that subscribers with switch capabilities in the no-load funds can switch a certain amount into equity (as I stated in the last Letter). Or you might pick up some shares here on the following basis: shares will be held as long as the averages hold above their July 24 lows or as long as the PTI holds to a bullish trend (which it is now doing). The animal in the box is a bull. But only the bull's head is in the box. I'll include the rest of him when the PTI crosses above its 21-week moving average.

Among the strongest of the Dow stocks are General Electric, General Foods (my favorite all year), General Motors, IBM, Owens-Illinois, Westinghouse, United Technologies.

financial transactions on his own disclosure statement, under the Financial Disclosure Act of 1978.

But right after Hansen's conviction, 230 members of the House amended their own disclosure statements. One of these was Vice-Presidential candidate Geraldine Ferraro.

* *

This year's hottest topic may be the "return" of Richard Nixon, a man so resilient that even his worst enemies are amazed. Nixon is also the only living ex-President who is in the public eye. And he's looming larger. In the August 15 USA Today Gore Vidal is interviewed, and I thought his thoughts on Nixon were interesting, to say the least. Here they are:

USA TODAY: Are you upset by Richard Nixon's recent return to the political scene?

VIDAL: No. I made it all possible. I invented him, as you know. He is the greatest of my creations, and a bit like all great fictional creations, he got away from me. He just walked right out of my books and now thinks he's real. So it's OK by me. In *Esquire*'s 50th anniversary issue, they asked 50 writers to write about 50 movers and shakers in the last half century, and I said he's the only great president we've had — a debased, lying cheat — but he opened up and normalized relations with China and arranged detente with the Soviet Union, which means he's the only president who did a damn thing, and will be much admired by history for that.

* *

San Diego was a sleepy little town and La Jolla (a suburb of San Diego) was an up-tight little village. That was back in 1961. San Diego is now the second biggest city in California and the eighth largest in the nation. La Jolla is still beautiful, but it has become a chic, bustling, overcrowded town. San Diego (and certainly La Jolla) has (1) some of the most expensive property and housing in the nation. (2) Positively the best weather in the nation. (3) Probably the best recreational environment in the nation–ocean, mountains, desert, fishing, golf, tennis, etc. Now we find out in a study of 21 cities that San Diego has the cheapest food in the nation. SD's average basket of food was 15% below the national average. Next cheapest was Des Moines at 10.4% below and next Pittsburgh at 9.9% below. Most expensive three: Wash. DC at 17.8% above the national average, Anchorage at 22.1% above and, at the top, Honolulu at 27% above. So what's the cheapest way to live well in the US? Drive your trailer to San Diego: you'll beat the housing costs and enjoy the cheap food.

Why is food cheap here? Vicious supermarket competition, all-year round growing season, low-cost unskilled labor and competition from Mexico, 20 miles to the south.

* *

Ever been embarrassed? Clark Clifford, White House Counsel for Harry Truman, tells this beaut:

As he tells it, Mr. Clifford was at a banquet one night and a guest politely turned to a woman seated to the right of him.

"Did I get your name correctly?" the guest said. "Is your name Post?"

"Yes," was the response.

"Is it Emily Post?" he said.

"Yes," she replied.

He said, "Are you the world renowned authority on manners?"

She said, "Yes," then added: "Why do you ask?"

"Because," he said, "you have just eaten my salad."

* *

Home prices are softening some, but note this: The median price of a single family dwelling was $32,000 in 1974. It is now $73,000. Here's a list of median sales prices for existing homes. Detroit and Tampa are at the bottom. And San Diego is at the top. Well, we do have the best weather in the world.

Housing Costs In Selected Cities

Median sales price, in thousands of dollars, for existing single-family homes in the first quarter of 1984.

Albany	$52.0
Atlanta	67.9
Baltimore	64.2
Boston	89.4
Chicago	77.8
Dallas Fort Worth	81.0
Detroit	48.1
Houston	78.4
Los Angeles	114.2
Minneapolis-St. Paul	73.4
New York metropolitan area	100.6
Philadelphia	59.8
San Diego	126.6
San Francisco	125.0
Tampa, Fla.	55.6
Washington, D.C.	91.3

Source. National Association of Realtors

* *

Does California have athletes? You better believe it! On the 1984 Olympic team I counted a total of 134 athletes from California. Nearest competitor: New York with 40.

* *

The 1984 Olympics may have represented the end of amateur sports as we know it in this country. And it may also represent a near-peak for US sports mania. Consider this: the NFL football Bengals (Cincinnati) have not been able to sign one of their top draft picks, Ricky Hunley. The Bengals have withdrawn their latest offer, and they will not trade him, which means Hunley could sit out the season. Why? This potential rookie has presented a 30-page-plus list of contract demands worth roughly half a million dollars a year. The demands include an expensive car, insurance policies and real estate as well as cash. . . . San Diego has not signed its no. 1 draft pick, Mossy Cade. Cade wants $2.4 million for four years.

* *

Coming Shock: I've mentioned this a number of times in previous Letters, but I want to set the record straight. California and Montana are hot prospects to pass a resolution calling for a constitutional convention which could mandate a balanced budget. Another state which could pass such a resolution (possibly in September) is Michigan. If two more states file petitions, Congress will (by constitutional law) have to ACT, since 34 states would bring about the first constitutional convention since the framers met in 1787.

However, most state petitions have a special delayed-action clause that would give Congress time to adopt its own amendment before the convention was called. Regardless of whether Congress or the special convention adopts an amendment to the constitution, a total of 38 states would have to ratify such an amendment before it became law.

With the horrendous deficits finally receiving wide publicity and with Americans now very aware of wild government spending and frightening deficits, I think California and Montana petitions are going to pass. The pressure will then be on. And then–watch for the shock of recognition. I am convinced that it's coming!

* *

One man has beaten the government on a Social Security number. In LA Robert Callahan, who believes that SS numbers are "the mark of the beast by which the Antichrist endeavors to

control mankind," convinced the US 9th Circuit Court of Appeals that he may have a valid case against the government. The court said that the government failed to establish that exempting Callahan would "impede" the goal of administrative efficiency.

* *

The US is strangling with lawyers, the latest statistics showing 650,000 lawyers in the 50 states. The estimate is 1 million lawyers here by 1990. In China, with a population of 1.2 billion, there are just 13,000 lawyers. Shang Si-zhi, Vice Chairman of the Peking Bar Assoc., recently stated that "In Peking we are aiming for a thousand lawyers as soon as possible." Right now Peking has only 400 lawyers or one for every 10,000 in the City!

* *

I've got to boast a little. I've got three big daughters and one little daughter (she's three). I also have a boy six. Well, the youngest of my first litter will be sweet 21 on September 6. That's Betsy. Betsy has been in Hollywood for two years–and she's been on her own. She has always wanted to be an actress, and by gad, she's doing it. Betsy just got her fourth movie this week, and her second lead part. So keep your eyes peeled for Betsy Russell, she's one of my better creations.

BOOK: When I was in my teens and twenties, I read nothing but fiction. But over the last few decades I've switched almost totally to non-fiction. I want to learn when I read, and my feeling now is that if I want fiction I'd rather get it the easy way–via the movies.

I just bought a book that I have found to be extremely interesting. It's entitled "The Art Dealers" and it's by deCoppet and Jones (Potter $24.95). I happen to love art, and particularly modern art. This book contains fascinating interviews by 32 of the leading art dealers in the US. Minus the bunk, this book really tells how the world of art works, what makes a star, what makes a great artist, how they are promoted, and how the whole world of art (really the New York world of art) functions. I recommend this book to anyone who has even a passing interest in art, I couldn't put it down.

GOLD, BONDS: Gold (inflation sensitive) and bonds (deflation sensitive) should normally move in opposite directions. And you can see on these daily charts, that's just what they have been doing, at least since June.

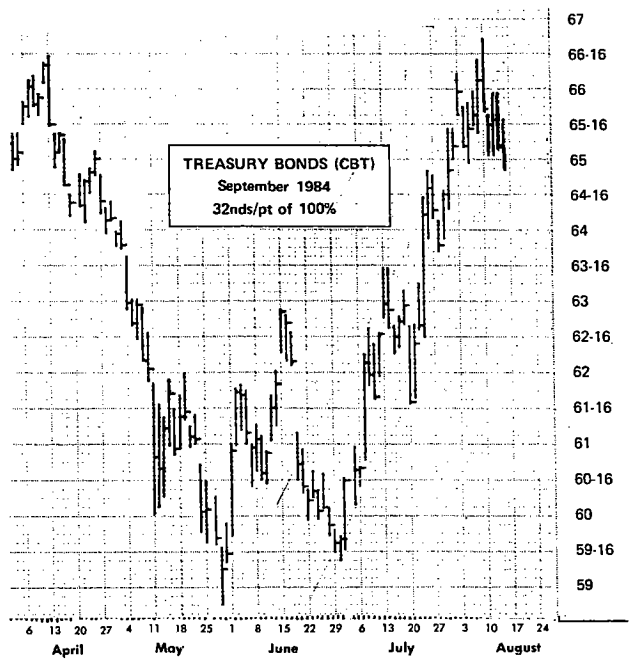
The T-bonds have now rallied roughly 7 points from their low, and the move has taken the Sept. contract bonds to their April peak at 66. This would be a logical place for a correction, but if the Sept. bonds can hold above 64½ we would be seeing a very strong performance. In that case I would expect new highs on the bonds during September.

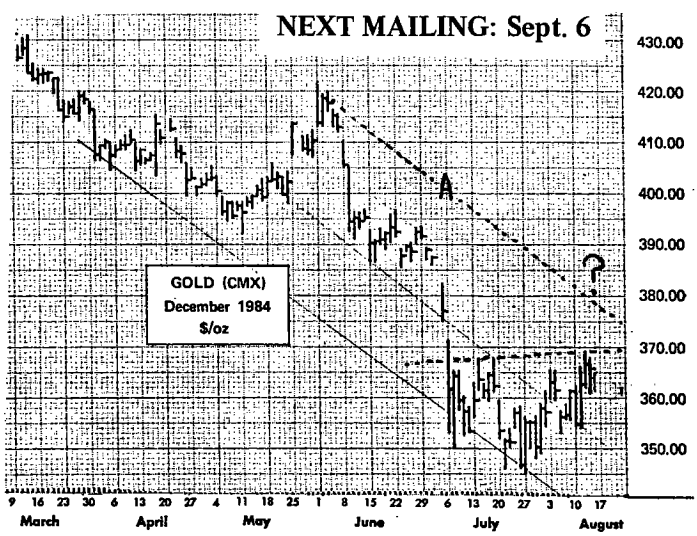
What could cause bond strength here? My own guess (and this is merely a guess) is that the bond market could be looking ahead to a VAT tax or a national sales tax next year. It could be that the bond market sees the deficit mess as so desperate that it believes something DRASTIC must be done after the election.

Next, gold. Here is the December gold contract, and it would seem that gold is trying to form a little bottom. A rally above 370 would be a plus, but I would be much more impressed if gold moved above descending trendline marked A on the chart. This would require a rise to 380 on the December contract. (Chart courtesy of Dunn & Hargitt).

All the little rallies in gold this year have amounted to naught, and a push above 370 on December could be more of the same. But a rise to 380 would impress me, so let's see if it can happen.

As an added technical note, I keep a ratio of gold to the NYSE Composite Index. This is obviously a relative strength index of gold vs. common stocks. As a rule, major moves in gold only occur within the context of rising relative strength in gold (at which time my ratio rises on a trend basis). Last week my three moving averages of the gold/stock ratio dropped to 377, its lowest level of the last four years. The new low in the ratio is not bullish for gold.





LATE NOTES: The market ended the week ending August 17 on a listless note, but I thought an encouraging note. The PTI closed at a new recovery high (since the July 24 low) at 1573–just 25 points below its moving average (the PTI is already above its 8-week MA, which stands at 1554). Meanwhile, the D-J Utility Average closed the week at 128.69, a new recovery high. The bond market ended on a firm note. The 5-week MA of the Dow closed at 1179, above the 50-week MA of the Dow which stands at 1161. I think the action for the week was positive.